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WASHINGTON NOTES

GOVERNMENT OWNERSHIP OF SHIPS

By enacting on September 7, 1916 (Act No. 260, Sixty-fourth Congress, first session), an act to establish a United States shipping board, Congress has practically adopted, in modified form, the plan for the establishment of a merchant marine that had been accepted by the federal administration. The board provided for in the act in question is to consist of five commissioners, chosen by the President with the advice and consent of the Senate, and receiving salaries of \$7,500 per annum, its expenses being paid by the government, and its duties being to "have constructed and equipped in American shipyards, navy-yards or elsewhere . . . or to purchase, lease, or charter . . . vessels suitable for use as naval auxiliaries or army transports . . ." and also to "form under the laws of the District of Columbia one or more corporations for the purchase . . . and operation of merchant vessels." Not less than a majority of the capital stock of any such corporation is to be subscribed by the board, which is also vested with the duty of investigating the relative costs of the building of merchant vessels in the United States and abroad. The Secretary of the Treasury, in order to provide money for subscriptions to the capital stock, is authorized to sell Panama Canal bonds to an amount not exceeding \$50,000,000.

The shipping board is also given large powers of control over shipping rates. The rebate system heretofore widely employed by vessel lines is prohibited, while retaliation against shippers by refusal of space accommodations is likewise made illegal, and a system of heavy fines for unfair or discriminatory contracts is authorized. Copies of freight-rate tariffs must be filed with the board, and that organization is given power to disapprove, cancel, or modify rate agreements and all other undertakings entered into by common carriers by water. The act contains lengthy provisions forbidding discrimination in interstate commerce by water and prescribing the treatment of competitive points, much of the text of the law being based upon the Interstate Commerce Act or drawn from experience in connection with the enforcement of that act. A considerable number of points dealt with in the various merchant-marine investigations of recent years and brought to the attention of Congress in the investigators' reports are likewise embodied in the measure.

One of the most interesting, and possibly least defensible, phases of the law is found in its authorization to the Shipping Board to investigate the action of foreign governments with respect to their treatment of

American vessels, and the attempt to apply retaliatory tactics in cases where it is believed that unfair methods have been employed by foreigners. Thus the Secretary of the Treasury is authorized to refuse a clearance to any vessel destined for a foreign port if it is believed that such vessel has declined to accept or receive freight or cargo destined for such port. The President is empowered to "secure by diplomatic action" equitable privileges for vessels of the United States engaged in foreign trade; and, if unable to secure them, he is directed to advise Congress as to the facts, and to transmit his conclusions in a special message for that purpose.

Extensive powers of investigation of the books of shipping companies are conferred upon the new board, and the board itself is given authority to "reverse, change, or modify, upon such notice and in such manner as it deems proper, any order made by it." Its powers are thus of a remarkable and far-reaching sort, including executive, judicial, investigative, and, to a certain extent, diplomatic authority, while its financial powers and duties are similarly extensive. The adoption of this measure has undoubtedly been stimulated by the continued difficulty of transportation growing out of the European war, and there are many who believe that without the existence of the war and the exigencies growing out of it no such act would have been adopted, or perhaps seriously considered by Congress. The real problem to be encountered in connection with the constructive part of the board's work—that of securing additional available tonnage—will be found in the fact that the physical obstacles and delays to the construction of vessels, as well as the openings for acquiring them by purchase, are the same for a government organization as for private individuals; and that the corporations to be formed by the Shipping Board will naturally have to conform to the same requirements and to overcome the same difficulties that are now met by ordinary corporations engaged in the business. The question whether a shipping board intrusted simply with the duty of supervising rates and making regulations intended to secure equitable treatment for shippers by water can or cannot be of large service is one about which there has been a wide difference of expert opinion. Many ardent rate-regulators hold that transportation by water is necessarily controlled by considerations very different from those that prevail in connection with railway transportation, so that the efficacy of the methods of supervision employed with respect to railways might very well be doubted as regards water transportation. It will clearly require an experience of considerable length to ascertain the exact degree of success that may be expected from the work of the Shipping Board.

THE NEW TARIFF COMMISSION

As the outcome of a long agitation extending over a series of years, Congress on September 8 authorized the creation of a Tariff Commission (Public Act No. 271, Sixty-fourth Congress). This action was taken as one element in the revision of the revenue system which included the re-enactment of the income tax on a new basis, and the adoption of additional tariff duties. The Tariff Commission now provided for is of the kind known as "bipartisan," and consists of six members to be appointed by the President, not more than three of whom are to be members of the same political party. The function of the commission is to be that of investigating "the administration and fiscal and industrial effects of the customs laws . . . the relation between rates of duties on raw materials and the finished or partly finished products, the effect of ad valorem and specific duties, and of compound specific and ad valorem duties, also questions relating to the arrangement of schedules and classification of articles . . . ," etc. Material compiled by the commission is to be furnished to the President and the appropriate committees of Congress whenever desired. By way of providing the commission with a regular organization from the outset, certain work now carried on in the Bureau of Foreign and Domestic Commerce is to be transferred to the new body, while power is given to the commission to subpoena witnesses and to call for documents, papers, or records in the possession of individuals or corporations. The usual provisions for maintaining the secrecy of the information obtained and for organizing and inaugurating the work of the new board are included, and the sum of \$300,000 is appropriated for the fiscal year ending June 30, 1917, with a similar amount each year thereafter. No action has as yet been taken toward the appointment of the members of the new Tariff Commission, but unofficial announcement has been made that such appointments will be definitely determined upon at an early date. It is to be noted that this Tariff Commission is practically identical with the type of commission which has long been urged by so-called "progressive" leaders and that it is provided with the power that has been insisted upon as being essential to the success of such a body. It was constantly asserted during the life of the former Tariff Board under President Taft, that one serious defect in the work done at that time lay in the inability of the commission to insist upon the furnishing of evidence or necessary industrial data, so that it had to content itself with information voluntarily furnished. On the other hand, it is worthy of special note that the act creating the present commission has nothing to say with reference

to the ascertainment of what is called "comparative cost of production." Neither is there any stress upon so-called "foreign cost of production," although cost of production as such is incidentally mentioned at one point as a subject of inquiry. During the life of the former Tariff Board, political leaders sought to show that the tariff should be adjusted upon a basis equal to the differences between American and foreign costs, and much time and money were spent by the old organization in the effort to ascertain these costs in the cases of certain specific articles. Indeed, a large proportion of the work of the former Tariff Board revolved about this idea of comparative cost of production. The powers of the new commission are broad, as can be seen from the description of its functions already cited, and are stated in language which is free from the theoretical bias implied in the idea of the comparative cost of production.

It is generally admitted that the work of this Tariff Commission, when it is appointed, will be affected in no small degree by the developments consequent upon the close of the European war. Few, if any, further changes in the tariff are probably to be expected for the present; and no revolutionary change in the direction of foreign trade is to be looked for prior to the close of hostilities. In this view of the case the new commission may have a period of possibly uninterrupted investigation equal to the time between its organization and the end of the war.

One important phase of the commission's duty is found in the requirement that it shall investigate tariff relations between the United States and foreign countries, including commercial treaties, preferential tariff provisions, and the like. There is here a field of work which is not only large, but likely to be of immediate importance upon the conclusion of the European war, while it is not necessarily dependent upon domestic tariff legislation. The new commission might thus conceivably have duties of a varied and important kind, independent of the direction taken by political events, although in this case, as in others, much will depend upon the direction given to the work by the persons who may be named members of the new organization.

CHANGES IN THE FEDERAL RESERVE ACT

The act of Congress approved September 7, 1916, has broadened the operation of the Federal Reserve Act in several important particulars. Such a broadening has been urged for some time past, and certain elements in it were recommended by the Federal Reserve Board in the last annual report of that body. The outcome, as enacted into law on the

date mentioned, both renders the federal reserve system more attractive to member banks and increases the scope and service of the federal reserve banks. It increases the avenues of profit open to members by permitting them to accept domestic bills of exchange properly documented, thereby placing a new credit resource of great value at the service of the agricultural and commercial community; while it also authorizes banks in places of not more than 5,000 inhabitants to act as agents of insurance companies, thereby increasing public convenience and allowing these smaller institutions to engage in a profitable kind of business. The powers already conferred upon national banks with reference to the making of real-estate loans are moreover broadened. The act strengthens the federal reserve banks by authorizing the Reserve Board to permit member banks to carry their so-called vault reserves with reserve banks if desired, thereby providing a means for building up the cash resources of the reserve institutions, while it also enlarges the classes of collateral which may be used as a basis for the issue of federal reserve notes, and increases the ease with which members may obtain short-term accommodation based upon eligible paper, without actually discounting such paper. The amendatory act moreover provides for the further extension of our foreign trade by enabling groups of banks to unite for the establishment of institutions created for the special purpose of financing foreign trade operations. Partly owing to the permission to transfer vault reserves to federal reserve banks and partly in consequence of the gradual transference provided for in the original act, the resources of the federal reserve banks are now more than \$650,000,000, while the total reserves held are about \$400,000,000, in addition to more than \$225,000,000 held as special security against federal reserve notes. About one-fourth of the country's great stock of gold is thus in the hands of the federal reserve banks and agents.

Criticisms properly to be passed upon this amendatory act are the same as those which in the past have always been directed against domestic acceptances—the danger that that type of bankers' acceptance will be improperly used as a means of accommodating individuals who have no commercial security to offer. This danger is in some measure safeguarded against by stringent requirements that the draft shall be documentary in character, and consequently shall not be open to dangers of renewal that would otherwise have offered themselves. On the other hand, the provisions of the law which permit banks to accept for the purpose of furnishing dollar exchange in countries where commercial usage demands the issuance of such acceptances in order to provide

means of remittance, may likewise be subject to some abuse unless carefully restricted, as it at least opens the way for the growth of a considerable structure of finance bills. The introduction of the more liberal powers accorded to national banks in connection with real-estate loans and insurance operations may prove to be of doubtful expediency though perhaps necessitated by increasing competition of state banks organized under liberal local laws designed to attract banking capital away from the national system. On the other hand, the provisions of the act relating to the transfer of vault reserves at the will of the member banks to federal reserve banks at least open the opportunity for an immense strengthening of the federal reserve system through the shifting of unnecessary vault reserves to the reserve banks. A number of strong institutions have already accepted this plan, materially increasing their reserves with federal reserve banks, as already noted, but it is not certain how far the process will be carried. One factor militating against action of this kind on the part of member banks is seen in the fear that member banks' reports showing a reduced amount of vault cash will inspire alarm in the minds of depositors and note-holders. This may be overcome by permitting the member banks to report their vault cash and balance with the federal reserve bank as a single item, while in other ways the transfer of vault cash may be facilitated. Particularly good success may be obtained in this way from the action of banks in the larger cities. The amendatory act on the whole is calculated, as already stated, to render the reserve system more attractive, and at the same time to confirm it in the exercise of its present functions. It is worthy of note that neither the proposed amendment permitting national banks to establish domestic branches, which has the support of the Federal Reserve Board, nor the amendment authorizing the counting of federal reserve notes as reserves, met with success.